

Message Text

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PAGE 01 CAIRO 03034 080805Z

17

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NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 /104 W

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TO SECSTATE WASHDC PRIORITY 0758

SECTREASURY PRIORITY

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TEL AVIV

AMEMBASSY TOKYO

AMEMBASSY ROME PRIORITY

C O N F I D E N T I A L CAIRO 3034

TREASURY PASS SECRETARY SIMON

E.O. 11652: GDS

TAGS: USEJGC EGEN, OVIP (SIMON, WILLIAM E.)

SUBJECT: SIMON VISIT: MEETING WITH MINISTER OF ECONOMY SHAFEI

1. SUMMARY: SECRETARY SIMON'S MEETING MARCH 6 WITH MINECON PROVIDED OPPORTUNITY FOR FRANK EXCHANGE ON PENDING PRIVATE INVESTMENT QUESTIONS, WITH GOODYEAR PROJECT DISCUSSED AT LENGTH. SECRETARY STRESSED NEED FOR TIMELY AND ORDERLY APPROVAL PROCEDURES IF ADVERSE US BUSINESS REACTION IS TO BE AVOIDED. MINECON POINTED OUT GOE'S FOREIGN EXCHANGE PROBLEMS IN THIS REGARD. POSSIBILITIES FOR TECHNICAL ASSISTANCE IN PROJECT APPRAISAL WERE
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PAGE 02 CAIRO 03034 080805Z

EXPLORED. END SUMMARY.

2. SECRETARY SIMON, PRESIDENTIAL ASSISTANT SEIDMAN AND AIDES, ACCOMPANIED BY CHARGE AND EMBASSY OFFICERS, MET WITH MINISTER OF ECONOMY DR. MOHAMED ZAKI SHAFEI AFTERNOON OF MARCH 6 FOR DISCUSSIONS CENTERING ON US/EGYPTIAN COMMERCIAL RELATIONS AND STATUS OF US INVESTMENT PROJECTS. NUMBER OF SPECIFIC INVESTMENT PROJECTS WERE DISCUSSED, INCLUDING PROPOSAL BY CHEMTEX-DUPONT, BORDEN INTERNATIONAL, GOODYEAR, TABER METALS AND INTERNATIONAL TANK TERMINALS. THRUST OF DIALOGUE WAS ON TROUBLESEOME ASPECTS OF DELAYS IN PROJECT APPROVAL AND DIFFICULTIES RAISED BY EGYPT'S SHORTAGE OF FOREIGN EXCHANGE. CHEMTEX-DUPONT, ACCORDING MINECON, IS STILL UNDER DISCUSSION WITHIN GOE MINISTRY OF INDUSTRY EVEN THOUGH PREFERENCE HAS BEEN EXPRESSED BY GOVERNMENT FOR OFFER BY FRENCH FIRM.

MINECON DOWNGRADED IMPORTANCE OF BORDEN PROPOSAL IN THAT PROJECT DOES NOT MEET GOE DEVELOPMENT CRITERION REGARDING FOREIGN EXCHANGE GENERATION BY INVESTMENT PROJECTS. MINECON NOTED THAT TABER METALS PROPOSAL HAS BEEN APPROVED, BUT THAT INTERNATIONAL TANK TERMINALS PROJECT IS LINKED WITH MINISTRY OF SUPPLY AS SOLE USER OF STORAGE CAPACITY. IN VIEW MINSUPPLY'S OBJECTIONS TO PROJECT, MINECON CANNOT HIMSELF RECOMMEND APPROVAL OF THIS PARTICULAR INVESTMENT PROPOSAL.

3. GOODYEAR PROJECT CAME IN FOR EXTENDED DISCUSSION. MINECON MADE POINT MORE THAN ONCE THAT GOODYEAR PROPOSAL IS NOT AS ADVANTAGEOUS TO EGYPT AS FRENCH MICHELIN TIRE PROPOSAL, WHICH FORECASTS 50 PERCENT OF PRODUCTION FOR EXPORT AND WHICH REQUIRES NO FOREIGN EXCHANGE GUARANTEES ON PART OF GOE. MINECON INDICATED NEGOTIATIONS NEED TO BE REOPENED, HOWEVER, AND STATED HE HAS SENT WORD THAT GOODYEAR REPRESENTATIVES SHOULD BE SENT FOR THIS PURPOSE. SHAFEI SAID \$18 MILLION ANNUAL FOREIGN EXCHANGE REQUIREMENT IS ONLY POINT OF DIFFICULTY, CITING CURRENT CRISIS IN FOREIGN EXCHANGE AVAILABILITY. HE SUGGESTED THAT GOODYEAR SHOULD REVISE ITS PLANS SO AS TO EXPORT MORE, PERHAPS UP TO 25 PERCENT OF PRODUCTION, AND INTIMATED THAT CONSIDERATION OF PROJECT COULD BE REACTIVATED UPON RECEIPT OF FURTHER PROPOSAL.

4. US SPOKESMAN STATED IT IS IMPORTANT THAT EXPLANATION OF ECONOMIC JUSTIFICATION FOR MICHELIN PROJECT VS GOODYEAR BE PROVIDED, IF GOODYEAR PROJECT IS REJECTED, IN ORDER THAT US BUSINESS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 03034 080805Z

MAY BE ADEQUATELY INFORMED. SHAFEI INDICATED HIS FULL AWARENESS FOR NEED OF SUCH EXPLANATION. IN ORDER TO DEMONSTRATE SUPERIORITY OF MICHELIN PROPOSAL OVER GOODYEAR PROJECT, MINECON OFFERED SUMMARY DOCUMENT ON MICHELIN PROJECT (IN ARABIC), WHICH WAS DECLINED BY SECRETARY AS POSSIBLY INAPPROPRIATE FOR US GOVERNMENT POSSESSION. WHEN GOE REPRESENTATIVES WERE ASKED HOW THEY COULD BE SURE THAT MICHELIN WOULD IN FACT EXPORT 50 PERCENT OF PRODUCTION, SHAFEI RESPONDED THAT MICHELIN ASSURANCES WOULD HAVE TO BE TAKEN

AT FACE VALUE. ASKED BY US REP WHAT SANCTIONS WOULD BE APPLIED IF THE EXPORT TARGETS WERE NOT ACHIEVED, SHAFEI ADMITTED HE KNEW OF NO SANCTIONS THAT COULD BE APPLIED.

5. SECRETARY SIMON EMPHASIZED STRONGLY NEGATIVE EFFECT OF EXTENDED DELAYS IN DECISIONS ON US INVESTMENT PROPOSALS, WITH TWO-YEAR ELAPSED PERIOD ON GOODYEAR PROJECT AS PRIME EXAMPLE. SECRETARY URGED THAT DECISION BE MADE ON IT AND OTHER PROJECTS IN TIMELY FASHION TO AVOID ILL WILL OF US BUSINESS. HE STRESSED EARLY DECISIONS ARE DESIRABLE EVEN IF INVESTMENT IS NOT FULLY DOCUMENTED SO AS TO SERVE LARGER INTEREST OF PROVIDING MOMENTUM IN PRIVATE SECTOR INVESTMENT SCENE.

6. SECRETARY ALSO COMMENTED IT WAS EXTRAORDINARY THAT GOE HAD NO GROUND RULES FOR SEEKING COMPETITIVE BIDS AND FOLLOWING ORDERLY NEGOTIATIONS WITH PROSPECTIVE INVESTORS. IT WAS STRESSED THAT CONTINUED DELAYS AND EXCESSIVE RED TAPE WILL TEND TO DISCOURAGE ACTIVE INTEREST IN EGYPT BY US BUSINESS FIRMS. SECRETARY NOTED THAT WORD SPREADS QUICKLY WITHIN US BUSINESS COMMUNITY ABOUT SUCH PROBLEMS. HE INDICATED THAT ADVERSE COMMENT ABOUT INVESTMENT PROSPECTS IN EGYPT ALREADY IS CIRCULATING. SECRETARY EMPHASIZED POTENTIAL OF JOINT US/EGYPT BUSINESS COUNCIL AS FORWARD LOOKING, PRESTIGIOUS VEHICLE FOR PROMOTING INVESTMENTS IN EGYPT. HE EXPRESSED HOPE THAT DIFFICULTIES ASSOCIATED WITH INVESTMENT PROJECTS IN EGYPT WILL NOT CAUSE COUNCIL TO LOSE INTEREST.

7. PRESIDENTIAL ASSISTANT SEIDMAN COMMENTED THAT COMPETITION FOR INVESTMENT CAPITAL IS INCREASING WORLDWIDE; US FUNDS ARE NOT SEEKING OUTLETS, BUT RATHER HAVE TO BE ENTICED BY SUITABLE INCENTIVES AND A RECEPTIVE INVESTMENT CLIMATE. USDEL NOTED THAT, FACED WITH ADVERSE BUSINESS CLIMATE, US INVESTORS WILL TURN THEMSELVES OFF, REGARDLESS OF USG POLICY STATEMENTS OR OTHER INDUCEMENTS TO INVEST. USG CAN HELP, HOWEVER, IN ENCOURAGING

CONFIDENTIAL

PAGE 04 CAIRO 03034 080805Z

CORPORATE DECISIONS TO INVEST ONCE HOST GOVERNMENT APPROVAL HAS BEEN GRANTED. DIFFERENCE BETWEEN COMPANY DECISIONS TO MAKE INVESTMENT -- AS IN GOODYEAR CASE -- AND APPLICATIONS FOR PROJECT APPROVAL ONLY WAS POINTED OUT. TREAS ASST SEC PARSKY SUGGESTED OPIC MIGHT BE AGREEABLE TO SENDING OFFICIAL TO EGYPT TO ASSIST ON OPIC COVERAGE QUESTIONS.

8. MUCH OF CONVERSATION CONCERNED GOE'S DIFFICULTIES IN GUARANTEEING FOREIGN EXCHANGE AND IMPORTANCE OF INVESTMENT PROJECT EARNINGS IN PROJECT CONSIDERATION. DEPUTY MINECON GHANDOUR TERMED GOODYEAR PROJECT "SUBOPTIMAL" IN VIEW OF FACT THAT COST OF FOREIGN EXCHANGE SAVING WAS HIGH. HE INDICATED THAT GOODYEAR PROJECT COST MORE IN FOREIGN EXCHANGE (I.E., \$18 MILLION PER YEAR) THAN IT SAVED. THIS LED TO MULTIFACETED DISCUSSION OF IMPORT SUBSTITUTION AND EXPRESSION OF OPINION BY MINECON AND ADIES THAT

PROJECT WITH SIGNIFICANT EXPORT PRODUCTION MAY BE PREFERABLE IN SENSE THAT IT EARNS INCREMENTAL FOREIGN EXCHANGE, AS OPPOSED TO IMPORT SUBSTITUTION PROJECT WHICH INEVITABLY STILL CONSTITUTES DRAIN ON GOE'S FOREIGN EXCHANGE HOLDINGS. RATIONALE AS EXPRESSED IN MEETING IS NOT ENTIRELY CLEAR; EVIDENTLY GOE SPOKESMAN WERE CONCENTRATING IN DISCUSSION OF IMPORT SUBSTITUTION ON COSTS OF FIRST FEW YEARS OF PROJECT. NEVERTHELESS, SHAFEI ASSERTED IN SUMMARY THAT GOE WOULD GIVE EQUAL CONSIDERATION TO FOREIGN EXCHANGE SAVING AND EXPORT EARNING PROJECTS.

9. MINECON SHAFEI WAS HARD PUT WHEN ASKED TO CITE SUCCESS STORIES AMONG US INVESTORS, BUT DID MENTION TABER METALS, A TRUCK ASSEMBLY PROJECT AND A FREE ZONE PETROLEUM EQUIPMENT PRODUCTION INVEST-

MENT. MINECON FURNISHED LIST (IN ARABIC) OF APPROVED PROJECTS.

10. OTHER SUBJECTS COVERED INCLUDED DISCUSSION OF FORTHCOMING CAIRO INTERNATIONAL FAIR AND EXPANDING TRADE BETWEEN US AND EGYPT. POSSIBILITIES OF TECHNICAL ASSISTANCE WERE EXPLORED, PARTICULARLY IN PROJECT EVALUATION AREAS. US DELETED PROGRESS IN PRE-INVESTMENT FEASIBILITY STUDY GROUP UNDER IBRD SPONSORSHIP AND RAISED POSSIBILITY OF FURTHER ASSISTANCE. MINECON SHAFEI SUGGESTED NEED FOR ENGINEERING AND ECONOMIC EVALUATION OF PROJECTS IN INDUSTRY AND SERVICE SECTORS. USAID DIRECTOR NOTED DISCUSSIONS ARE UNDERWAY WITH MINISTRY OF ECONOMY TO DEVELOP PROJECT APPRAISAL CENTER WITH US PRIVATE FIRMS SUPPLYING EXPERTISE. PRIVATE SECTOR
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PAGE 05 CAIRO 03034 080805Z

INVOLVEMENT IN CENTER IS EXPECTED TO LEAD TO CHANNELING OF BUSINESS INTEREST IN SPECIFIC PROJECTS. DR. SHAFEI CONCURRED IN USEFULNESS OF CENTER AND, WHEN ASKED ABOUT TARGET DATE, EXPRESSED HOPE IT COULD BE IN OPERATION BEFORE JUNE. HE SAID TRAINING OF EGYPTIANS IN US IS ALSO NEEDED.

11. ENTIRE CONVERSATION WAS CORDIAL AND AT SAME TIME, VERY FRANK. SECRETARY CHARACTERIZED MEETING AS EXTREMELY USEFUL, NOTING THAT IT WAS ONE OF BEST SUCH SESSIONS HE HAD HAD.
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